

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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May 13, 2008

Mr. Brian Mayhew
Chief Financial Officer
Metropolitan Transportation Authority
101 Eighth Street
Oakland, CA 94607

Re: Metropolitan Transportation Authority
Audit of Indirect Cost Allocation Plan for Fiscal Year 2008
No: P1190-0661

Dear Mr. Mayhew:

We have audited the Metropolitan Transportation Commission's (MTC's) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with the Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department's) Local Program Procedures (LPP) 04-10. The MTC management is responsible for the fair presentation of the ICAP. The MTC proposed an indirect cost rate of 49.17% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of MTC. Therefore, we did not audit and are not expressing an opinion on MTC's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by MTC, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of MTC in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to the single audit report for the fiscal year ended June 30, 2006, and inquiries of MTC personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to a post audit in-progress on MTC. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration MTC's response dated May 5, 2008 to our draft findings. Our findings and recommendations, a summary of MTC's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, MTC's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate of total direct salaries and wages, plus fringe benefits is 49.17%.

The indirect cost rate for fiscal year ended June 30, 2008 is based on budgeted costs. In addition, the approval of the indirect cost rate is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

As a result of proposed Post-Audit findings on MTC, we will adjust the previous 3 years' (FY 04/05, 05/06, 06/07) budgeted ICAP Rates to actual rates thereby enabling us to determine and request the reimbursement of overpayment amounts made by the Department to MTC. Consequently, there will be no ending carry-forward amounts for each of these years thereby eliminating the beginning carry-forward amounts for FYs 07/08 and 08/09. The OMB A-87, Attachment E, Section E(4), requires that "Refunds shall be made if proposals are later found to have included costs that (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type or rate negotiated (predetermined, final, fixed, or provisional)."

Audit Findings

Finding 1

MTC lacks adequate supervision, and training of staff assigned to prepare its ICAP and Overall Work Program (OWP) that would ensure "Support Costs" (i.e. travel, printing, computer, etc) are properly segregated, allocated, and not duplicated. Per CFR 49, Part 18(3),

Internal Control, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." We found that support costs included in MTC's ICAP as indirect costs were also duplicated in MTC's OWP budget as direct costs. OMB A-87, Attachment E, Section D requires agencies to certify that, "the same costs that have been treated as indirect costs have not been claimed as direct costs." Additionally, we determined that these costs were not properly segregated between direct and indirect and therefore direct costs were improperly allocated as indirect costs to the ICAP and indirect and direct costs were improperly allocated together as direct costs to the OWP budget.

Recommendation

MTC should provide adequate supervision and training of staff assigned to prepare its ICAP and OWP to ensure that "Support Costs" are properly segregated, allocated, and not duplicated. Specifically, MTC should ensure that costs indirect in nature are included in the ICAP. The OWP Budget should include those direct costs identified specifically to each Work Item. The indirect costs should be allocated to Work Items based on the direct labor and fringe benefits budgeted to each Work Item.

MTC's Response

MTC compared the support costs included in the ICAP as well as those included in the OWP for fiscal years 04-05 and 05-06. The allocation methods used to distribute support costs for the OWP and ICAP were different. Support Costs were distributed across various Work Items in the OWP as direct costs only. Support Costs included in the ICAP were segregated between direct and indirect, but included indirect costs only. Monthly reimbursement requests included both direct and indirect costs (through ICAP rate). MTC will ensure that costs are properly segregated and consistently applied in preparation of both the OWP and ICAP.

Audit Analysis

Costs reflected as direct in nature appearing in the OWP should correspond with the treatment of the same costs in the ICAP and therefore not be included as indirect in nature in the respective year's ICAP. Additional oversight over these two processes would reduce the risk of this type of error. Finding remains.

Finding 2

MTC uses "total direct salaries and wages" as the base used in their proposed ICAP rate. However, we noted that the base incorrectly included "Other Direct Costs" such as Consulting (Agency Temps) and Pass-Thru (High School Intern) costs. Per OMB A-87, Attachment E, Section C(2)c. "the distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc (2) direct salaries and wages, or (3) another base which results in an equitable distribution." The base was adjusted to exclude "other direct" costs in the approved ICAP rate.

Recommendation

For future ICAPs, MTC should properly categorize all sub-contracted and pass-through costs as "Other Direct" costs, and thereby exclude these costs from the base of the Indirect Rate.

MTC's Response

Agency Temps and High School Intern costs were included in the salary base used to derive the ICAP rate for prior fiscal years. Inclusion of these costs in the direct labor base resulted in a lower ICAP rate for these fiscal years. The ICAP rate, however, was not applied to these costs in MTC reimbursement requests. For FY 07-08, MTC has excluded these costs in our computation of the ICAP rate and categorized Agency Temps and High School interns as "Other Direct" costs for FY 07-08.

Audit Analysis

MTC indicated that in previous years the ICAP rate had not been applied to the "Other Direct Costs." However, due to the misclassification of "Other Direct Costs" as "Direct Labor Costs," the ICAP rates applied in previous years were incorrect. The finding remains.

Finding 3

MTC's ICAP included \$38,906 in budgeted unallowable indirect costs that comprised of water, coffee, CALCOG membership dues and contingencies. These costs are unallowable per OMB A-87 as excerpted below:

1. Water, coffee - OMB A-87, Attachment B, Sections 20, "Goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."
2. CALCOG membership dues - Attachment B, Section 28d, "Costs of membership in organizations substantially engaged in lobbying are unallowable."
3. Contingencies - Attachment B, Section 9, Contingency provisions, "Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable."

The indirect cost pool was adjusted to exclude the unallowable costs from the approved ICAP.

Recommendation

MTC should ensure that expenditures for water, coffee, CALCOG membership dues and contingencies are identified as unallowable costs and excluded from the indirect cost pool. Additionally, MTC should ensure future ICAPs exclude unallowable costs.

MTC's Response

While we do not agree entirely with the CALCOG classification, MTC has excluded Water, Coffee, CALCOG memberships and Contingencies from the ICAP rate computed for FY 07-08 resulting in a reduction of indirect costs of \$38,906. Actual reimbursement requests have excluded costs associated with Coffee in prior fiscal years.

Audit Analysis

MTC concurs in part with our finding and recommendation. Finding and recommendation remain unchanged.

Finding 4

MTC billed direct labor costs under Work Item 1111 (Support the Commission) that included unallowable indirect labor costs for the Executive Director and Executive Secretary. OMB A-87, Attachment B, Section 19, states that, "The general costs of government are unallowable. These include: 1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal government and 2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction." As a result, these costs were excluded from the approved ICAP. The over-billed direct labor costs will be included as an audit adjustment in our concurrently performed post audit.

Recommendation

For future ICAPs, MTC should exclude all labor costs relating to Work Item 1111 from the direct labor base of the indirect cost rate.

MTC's Response

MTC included a portion of the Executive Director and the Executive Secretary as direct costs. MTC has classified these costs as unallowable indirect costs and excluded them from the ICAP for FY 07-08.

Audit Analysis

MTC concurs with our finding and recommendation for FY 07/08. However, MTC should ensure all labor costs relating to Work Item 1111 are excluded from the direct labor base of the indirect cost rate for future years.

Finding 5

Labor costs included in Work Item 1154 (Graphics) and Work Item 1161 (Information Technology Services) that are indirect in nature were incorrectly classified as direct costs in MTC's ICAP. These labor costs are general supportive costs that benefit MTC's operations as a whole and therefore should be classified as indirect. Per OMB A-87, Attachment A, Section F, it states, "General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved." As a result, these costs were moved from the direct labor pool to the indirect cost pool of the approved ICAP rate.

Recommendation

For future ICAPs, MTC should ensure that labor costs from Work Item 1154 (Graphics) and Work Item 1161 (IT Services) are properly included in the indirect cost pool as indirect labor and excluded from the direct labor base.

MTC's Response

Although many projects included in Work Items 1154 (Graphics) and Work Item 1161 (Information Technology Services) are direct in nature, these work items have been reclassified as indirect and included in the indirect cost pool for FY 07-08 ICAP.

Audit Analysis

Per our audit and discussion with MTC staff, the labor costs charged to these Work Items are indirect in nature and should be allocated to all projects/Work Items. The finding and recommendation remain.

This report is intended solely for the information of MTC, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposal for your files. Copies were sent to the Department's District 4, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Alice Lee, Auditor at (916) 323-7953 or Teresa Greisen, Audit Manager, at (916) 323-7910.



MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting
DLAE, District 4
P1190-0661



**METROPOLITAN
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May 2, 2008

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Ms. Teresa Greisen
Audit Manager
Audits and Investigations – M.S. 2
California Dept. of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Greisen

Enclosed please find Metropolitan Transportation Commission's Indirect Cost Negotiation Agreement and Cost Allocation Plan for FY 2007-08 for your review and approval. Our Indirect rate includes general and administrative salaries in accordance with your instructions. Per discussions with your audit team, the indirect cost rate for this year has not been adjusted by carry-forward amount as this amount is currently under review. The indirect cost rate computations included in this revised submittal include salaries, benefits and indirect costs for MTC, BATA and SAFE which have been reviewed by your audit team.

If you have further questions do not hesitate to contact me at (510) 817-5856.

Sincerely

Suzanne Bode
Accounting Manager

Encl

Cc: Blesilda Gebreyesus, Caltrans
Teresa Munoz, Caltrans
Liam Cunningham, Caltrans

Metropolitan Transportation Commission Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Metropolitan Transportation Commission and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate *	Applicable To
Fixed with carry-forward	7/1/07 to 6/30/2008	49.17%	All programs including MTC, BATA and SAFE

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance to the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing costs principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of costs from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determine - either by the grantee's Single Audit or if a Single audit is not required, then by the grantee's audited financial statements – any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The

over or under recovery will be carried forward, as an adjustment to the calculation of the indirect costs rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY 2008 Budgeted Indirect Costs (From Attachment 1)	\$9,673,537
Carry Forward from FY 2006 (From Attachment 2)	\$0
Estimated FY 2008 Indirect Costs (From Attachment 2)	\$9,673,537
FY 2007 Budgeted Direct Salaries & Wages plus Fringe Benefits (From Attachment 1)	\$19,671,794
FY 2008 Indirect Cost Rate (Estimated Indirect Costs/Budgeted Direct Salaries & Wages plus Fringe Benefits)	49.17%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Metropolitan Transportation Commission

Signature *Suzanne Bode*

Prepared by:

Name: Suzanne Bode

Title: Accounting Manager

Signature *Therese McMillan*

Approved and Submitted by:

Name of Official: Therese McMillan

Title: Deputy Director, Policy

Date of Execution: May 2, 2008

Signature *Brian Mayhew*

Reviewed by:

Name of Official: Brian Mayhew

Title: Chief Financial Officer (CFO)

Telephone Number: (510) 817-5730

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature *Mary Ann Campbell-Smith*

Reviewed and Approved and by:

(Name of Audit Manager) *Mary Ann Campbell-Smith*

Title: Chief, External Audits

Date: 5-13-08

Phone Number: 916-323-7105

Signature *Alice Lee*

Signature

Reviewed and Approved and by: *Alice Lee*

(Name of Auditor)

Title: Auditor

Date: 5-13-08

Phone Number: 916-323-7953

2007-08 BUDGET

	ALLOWABLE DIRECT COSTS	UNALLOWED INDIRECT COSTS	INDIRECT COSTS	TOTAL BUDGET
Salaries	12,353,366	244,182	3,498,010	16,095,558
Fringe Benefits	7,318,428	169,643	2,430,209	9,918,280
Total	19,671,794	413,825	5,928,219	26,013,838
DIRECT COSTS	65,951,219	419,970		66,371,189
INDIRECT COSTS:				
Travel and Training			194,408	
Printing/Printing Supplies			142,000	
Advisory Committee Stipend			30,000	
Computer Services			542,500	
Computer Maintenance			35,000	
Computer Hardware < \$ 5,000			300,000	
Computer Software < or = \$ 5,000			65,000	
Personnel Recruitment			80,000	
Public Hearings			55,000	
Advertisement/Legal Notices			120,000	
Communications			100,012	
Utilities			110,000	
Office Space Lease			18,000	
Meeting Room Rental			15,000	
Equipment Leases/Rentals			56,900	
Parking			53,595	
Off Site Storage Rental			20,900	
Auto Expense			27,200	
Office Equipment Maint & Repair			63,410	
Janitorial Services			110,247	
General Office Supplies			97,700	
Mailing and Postage			263,500	
Memberships			50,578	
Library Acquisitions/Subscriptions			35,000	
Law Library			20,000	
County Auditor			19,000	
Clippings/Newswire			18,000	
General Insurance			110,052	
Ergonomic Accomodation			15,000	
Miscellaneous			1,500	
RAFC Assesment - Operating portion			375,816	
Subtotal			3,145,318	3,145,318
TOTAL BUDGET	85,623,013		9,073,537	95,530,345
Depreciation			600,000	
TOTAL INDIRECT COST			9,673,537	

Metropolitan Transportation Commission

	2001	2002	2003	2004	2005	2006	2007	2008
Approved IC Rate	38.37%	36.46%	32.92%	47.68%	44.91%	33.74%	33.46% Approved IC Rate	49.17%
INDIRECT CARRY FORWARD								
Carry Forward	(18,190)	670,136	173,743	1,351,009	739,655	176,604	(753,083) Carry Forward	0
Indirect Costs per Single Audit	3,592,542	4,214,773	4,227,212	4,536,151	4,416,169	5,503,199	Estimated Indirect Costs	9,673,537
Total Indirect Costs	3,574,352	4,884,909	4,400,955	5,887,160	5,155,824	5,679,803	Total Indirect Costs	9,673,537
Recovered Costs								
(Direct Salaries * Approved Rate)	3,400,609	3,533,900	3,661,300	5,710,556	5,908,907	5,016,380	Estimated Direct Salaries	19,671,794
Indirect Carry Forward	173,743	1,351,009	739,655	176,604	(753,083)	663,423		
DIRECT SALARIES								
(Per Single Audit)								
Gen Fund - Salary	8,862,679	9,692,540	11,121,809	11,976,837	13,157,219	14,867,752		
Spec Rev Fund - Salary								
Int Serv Fund - Salary								
Total Direct Salaries	8,862,679	9,692,540	11,121,809	11,976,837	13,157,219	14,867,752		